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# Dun & Bradstreet Business Optimism Index

India | Q4 2008

October 2008

## D&B Business Expectations Survey

### *Outlook for Q4 2008 - Key Highlights*

- Composite Business Optimism Index down 28.1% y-o-y
- Optimism Index for Net Profits declined by 21 percentage point y-o-y
- Services sector least optimistic on volume of Sales, Profits and New orders

Dun & Bradstreet is pleased to send you the latest D&B Optimism Index for India. It is recognised as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity.

#### Methodology

For the purpose of conducting the survey, a sample is selected randomly from Dun & Bradstreet's commercial credit information file. The sample selected for the survey includes companies belonging to the basic goods, capital goods, intermediate goods, consumer durables, consumer non-durables and the service sectors. In short, the sample selected is a microcosmic representation of India's business community.

All the respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year:

1. Volume of sales
2. Net profits
3. Selling prices
4. New orders
5. Inventories
6. Employees

The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

#### Composite Business Optimism Index

Dun & Bradstreet introduced the Composite Business Optimism Index in Q4 2002. The purpose of the Composite Business Optimism Index is to capture the aggregate behaviour of all the six individual indices. Each of the six parameters has a weight assigned to it. For calculating the Composite Business Optimism Index, the positive responses for each of these parameters for

the period under review are expressed as a proportion of positive responses in the base period (Q2 1999). The parameter weights are then applied to these ratios and the results aggregated to arrive at the Composite Business Optimism Index. For the purpose of the survey, Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September and Q4 is the period between October and December each year. The D&B Optimism Index has been widely appreciated by business decision makers. We trust that you too will find it a useful tool in your day-to-day decision-making. Please do give us your feedback in this regard.

#### D&B Optimism Index for India for Q4 2008

The D&B Business Optimism Index for Q4 2008 was conducted in September 2008 - at a time when sentiments were highly cautious amidst turbulence in the global financial markets and growing concerns over slowdown in domestic growth. High interest rate regime consequent to the monetary tightening measures initiated by the RBI, high prices and subdued demand conditions have adversely impacted the growth momentum. The Indian economy grew by 7.92% (y-o-y) during Q1 FY09, a significant slowdown from Q1 FY08, when growth stood at 9.24%. Further, Index of Industrial Production registered an average growth of 5.7% during Apr-Jul 08 period vis-à-vis 9.78% during Apr-Jul 07.

As the global financial crisis intensified, the Indian financial markets also witnessed significant volatility. Firming up of call rates to as high as 16% coupled with increasing recourse to LAF window indicates the cash crunch in the banking system. Sentiment in the domestic stock markets also remained bearish during Sep 08; the BSE Sensex declined by as much as 18.6% between 1-Sep-08 and 6-Oct-08. Tight liquidity conditions in the international markets and increased risk aversion by global investors has raised concerns over an increase in FII outflows. In fact, net FII outflows in equities stood at US\$ 2.3 bn between 01-Sep-08 and 6-Oct-08. The weak trend witnessed in the domestic stock markets coupled with sustained dollar demand

has put downward pressure on the rupee. The rupee depreciated by almost 7.4% to 47.46 per US dollar on 6-Oct-08 as compared to the 44.21 on 1-Sep-08. In order to tide over the current liquidity crunch, the RBI initiated some market measures such as providing additional liquidity support under the LAF window, etc. In addition to these market measures RBI announced a 50 basis point cut in the cash reserve ratio (effective 11-Oct-08), which is expected to release about Rs. 200 bn into the banking system. The recent moderation in inflation seems to have provided some room to the RBI to ease its monetary stance and augment liquidity in the system. The headline inflation has moderated to 11.99% (week ended 20-Sep-08) as compared to 12.63% (week ended 9-Aug-08). The moderation in inflation can partly be attributed to the decline in international prices of crude oil, edible oils, etc. Although inflation has moderated to some extent, it still is in double digits and hence remains an area of concern. Moreover, the cut in CRR might put upward pressure on the money supply - which is growing at 21% far above RBI's target of 16.5 - 17%.

Reflecting the prevailing business sentiment, the Composite Business Optimism Index for Q4 2008 stands at 138.9 points, a record decline of 28.1% on y-o-y basis. The Composite Business Optimism Index has registered a marginal increase of 1.8% (q-o-q); however, this is in part due to the low base of the previous quarter. Based on the responses received, it is observed that five out of the six optimism indices, namely volume of sales, net profits, new orders, inventory levels and employee levels have registered increases as compared with the previous quarter. However, the q-o-q increase in the optimism indices can partly be attributed to a larger number of respondents anticipating no significant change from the current situation. Amongst the sectors, the services sector was the least optimistic. It is possible that the turmoil in the global financial markets, slowdown in global growth and the bearish sentiment in stock markets have dampened expectations of respondents from this sector. Q4 expectations for each of the six parameters and their comparisons with those of the previous quarters are discussed on the following pages.

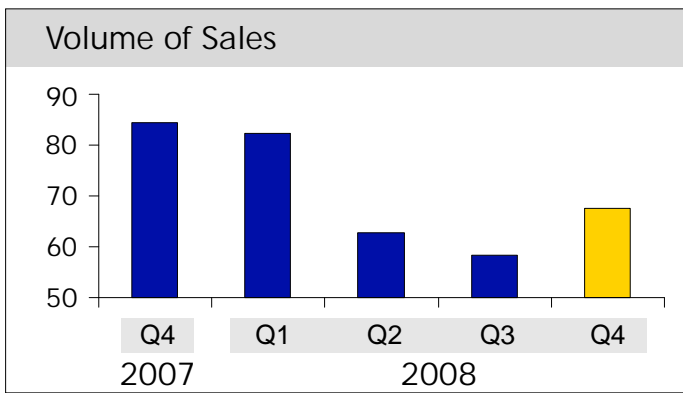
*The Manufacturing ISM Report on Business® (US Economy) is published monthly by the Institute for Supply Management™. The Institute for Supply Management™, established in 1915, is the world's leading educator of supply management professionals and is a valuable resource for decision makers in major markets, companies and Governments*

#### *Extract from September Manufacturing ISM Report on Business® (US Economy)*

Economic activity in the manufacturing sector failed to grow in September, while the overall economy grew for the 83rd consecutive month, say the nation's supply executives in the latest Manufacturing ISM Report On Business®.

The report was issued today (1-Oct-08) by Norbert J. Ore, C.P.M., chair of the Institute for Supply Management™ Manufacturing Business Survey Committee. "The PMI indicates a significantly faster rate of decline in manufacturing during September, marking a departure from the 2008 trend toward negligible growth or contraction each month."

Manufacturing contracted in September as the PMI registered 43.5 percent, 6.4 percentage points lower than the 49.9 percent reported in August. This is the lowest reading since October 2001 when the PMI registered 40.8 percent. ISM's New Orders Index registered 38.8 percent in September, 9.5 percentage points lower than the 48.3 percent registered in August. ISM's Production Index decreased to 40.8 percent in September, a decrease of 11.3 percentage points from the 52.1 percent reported in August. ISM's Employment Index registered 41.8 percent in September, which is a decrease of 7.9 percentage points when compared to the 49.7 percent reported in August. The ISM Prices Index registered 53.5 percent in September compared to 77 percent in August, indicating manufacturers are paying higher prices on average when compared to August, but that prices are increasing at a much slower rate. Manufacturers' inventories contracted in September as the Inventories Index registered 43.4 percent, which is 5.9 percentage points lower than the 49.3 percent reported in August.



### Volume of Sales

Demand conditions are expected to remain subdued during the Q4 2008. However given the forthcoming festive season, not many respondents expected the demand situation to deteriorate further. Approximately 4% of the respondents expect a fall in the sales volume during Q4 2008. While about 72% anticipate an increase in sales volume, 24% of the respondents expect no change from the current scenario. The resultant Optimism Index for Volume of Sales stands at 68%, an increase of 9 percentage point as compared to Q3 2008. However the resultant Optimism Index for Volume of Sales has declined by 17 percentage points on a y-o-y basis. Amongst the sectors, the services sector is the least optimistic on this parameter.

### Net Profits

Approximately 66% of the respondents expect an increase in profits during Q4 2008, while only 5% of the respondents are anticipating a fall in their net profits in the forthcoming quarter. The resultant Optimism Index for Net Profits stands at 61% as compared to 43% during Q3 2008. However, the resultant Optimism Index for Net Profits has experienced a decline of as much as 21 percentage points compared to Q4 2007. Amongst the sectors, the services sector was the least optimistic, with more than 40% of respondents from the services sector expecting a decrease or no change in net profits during the Q4 2008.

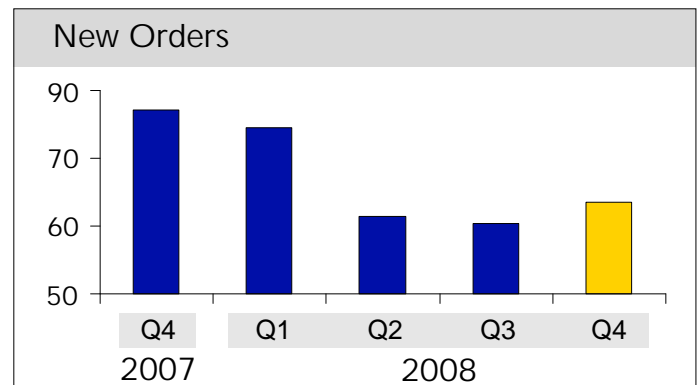


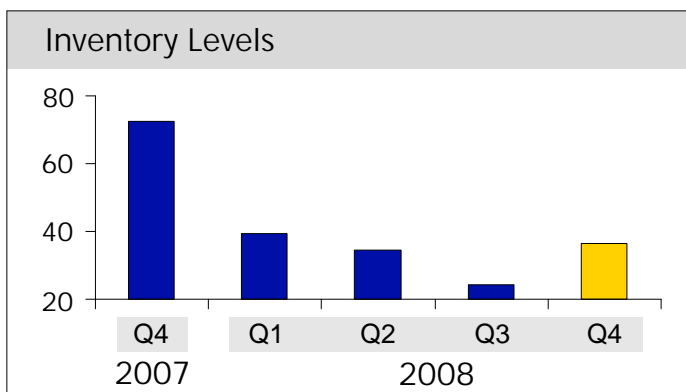
### Selling Prices

While about 40% of the respondents expect selling prices of their products to increase, about 7% expect to witness a decline in their selling prices during the Oct-Dec 08 quarter. However, a majority of respondents from almost all sectors anticipate no significant change in the prevailing prices. About 53% do not expect to witness any change in selling price. The resultant Optimism Index for Selling Prices stands at 33%, reflecting a marginal decline of 3 percentage points from the previous quarter. The consumer durables sector was less optimistic about this parameter with only 26% of the respondents from this segment expecting an increase in prices.

### New Orders

Approximately 72% of the respondents expect their order book position to improve and 4% anticipate a decrease in the number of new orders during Q4 2008. The resultant Optimism Index for New Orders stands at 68% marginally above 64% in the previous quarter. The capital goods sector was more optimistic with 89% of respondents expecting an increase in new orders placed during Q4 2008. This may be an indication of expectations of better demand conditions over the long term.



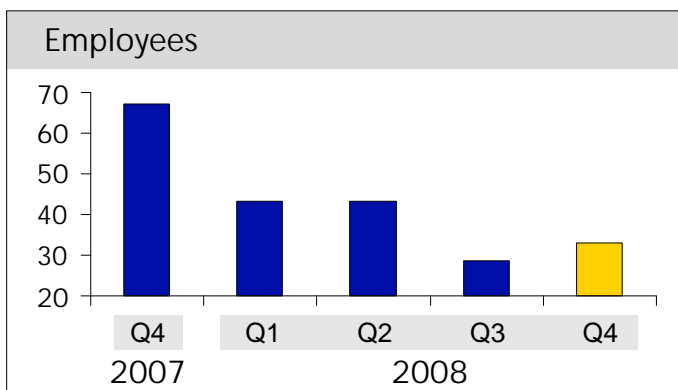


## Inventory Levels

While around 46% of the respondents expect to witness an increase in their inventory levels, around 10% expect their level of stock to decline in the Oct-Dec 08 quarter. As much as 44% respondents anticipate no significant change from the current situation. The resultant Optimism Index for Inventory Levels stands at approximately 36%, reflecting an increase of about 13 percentage points from the previous quarter. Respondents from the intermediate goods sector were least optimistic with respect to this parameter, with only 28% of respondents from this sector expecting an increase in inventory levels during the Oct-Dec 08 quarter.

## Employees

The majority of respondents anticipate no change in the size of the workforce employed during Q4 2008. Approximately 59% of the respondents intend to keep the number of employees unchanged. While 37% of the respondents expect an increase in the number of employees, 4% expect a decline. The resultant Optimism Index for Employees stands at 33% for the Oct-Dec 08 quarter, an increase of around 4 percentage points as compared with the previous quarter. Among the sectors, the basic goods sector showed a greater inclination towards increasing the number of employees.



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